COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, January 21, 2003

PETITION OF

CASE NO. PUE-2002-00573

VIRGINIA ELECTRIC AND POWER COMPANY

and

DOMINION ENERGY, INC.

For an exemption from the filing and prior approval requirements of Chapter 4 of Title 56 of the Code of Virginia or, in the alternative, approval of the transfer of inventory and Parts Reimbursement Agreement

ORDER GRANTING APPROVAL

On October 30, 2002, Virginia Electric and Power Company ("Dominion Virginia Power" or "Company") and Dominion Energy, Inc. ("Dominion Energy") (collectively, the "Petitioners"), filed a petition with the State Corporation Commission ("Commission") under Chapter 4 (§ 56-76, et seq.) of Title 56 of the Code of Virginia ("Code") for exemption from the prior approval and filing requirements thereof or, in the alternative, for approval of transfer of inventory and Parts Reimbursement Agreement. More specifically, Dominion Virginia Power requests approval to transfer inventory from Dominion Virginia Power to Dominion Energy at the price it paid for it, $23,864,473, and to enter into a Parts Reimbursement Agreement with Dominion Energy in connection with a maintenance and repair agreement with General Electric International, Inc. ("GEII"). The subject of the petition is a volume-based fleet agreement with

GEII for repair and maintenance of electric generating units owned by Dominion Virginia Power and Dominion Energy and its affiliates.

Dominion Virginia Power and Dominion Energy purchased gas turbine generators from an affiliate of GEII and plan to purchase additional similar units in the future. Under the volume-based fleet agreement and individual agreements with Dominion Virginia Power and Dominion Energy, GEII will repair and maintain these generators. By including Dominion Virginia Power's generating units along with Dominion Energy's generating units under the agreements with GEII, Dominion Virginia Power and Dominion Energy have been able to negotiate significant discounts on costs for services and parts for both Dominion Energy and Dominion Virginia Power.

Agreement with GEII

On March 28, 2002, Dominion Energy entered into a Multi-Unit Master Contractual Service Agreement ("Master CSA") with GEII. Dominion Energy (through its subsidiaries) and Dominion Virginia Power have constructed six simple cycle generating facilities and are in the process of constructing three combined cycle electric generating facilities. Additional electric generating facilities are in the planning phase. Dominion Energy and Dominion Virginia Power purchased certain gas turbine generators (the "Covered Units") from an affiliate of GEII. Dominion Energy entered into the Master CSA with GEII for GEII to provide long-term maintenance services for the Covered Units.

Along with the Master CSA, the terms and conditions for GEII's long-term maintenance services to be provided to Dominion Virginia Power and the unregulated affiliates will be governed by individual Contractual Service Agreements (each a "CSA"), which each Dominion

Resources, Inc. ("Dominion") subsidiary will (or has) executed individually with GEII. The individual CSAs will differ only in the entity that is a party to the agreement.

In order to fulfill its obligations under the Master CSA and the individual CSAs with Dominion subsidiaries, the Master CSA envisions the creation of an Initial Fleet Spares Inventory ("IFSI"). The IFSI is the inventory of parts that will be stored at a location designated by Dominion Energy and will be used by GEII to support and maintain the Covered Units.

IFSI

Dominion Virginia Power and Dominion Energy acquired the IFSI in December 2001 from GEII for $26,500,000, which Dominion Virginia Power represents is significantly below market rates. More specifically, prior to the execution of the Master CSA, Dominion Virginia Power purchased $23,864,473 worth of inventory, which was intended for use as part of the IFSI by Dominion Virginia Power and the various Dominion affiliates pursuant to the terms of the Master CSA. It was contemplated that, upon execution of the Master CSA, the IFSI would be transferred to an affiliate for administration of the IFSI in conjunction with the Master CSA. Dominion Energy purchased $2,635,527 worth of inventory, which is currently stored in Elwood, Illinois. The Master CSA and the individual CSAs envision that the IFSI will be owned by Dominion Energy and managed by GEII. Company requests approval to transfer the IFSI at the price paid for it in December 2001.

Operation of the IFSI and the Parts Reimbursement Agreement

Dominion Energy will own, and GEII will manage the IFSI. GEII may use parts from the IFSI in the performance of Planned Maintenance, Unplanned Maintenance, and Extra Work as defined in the Master CSA. Dominion Energy, as owner of the IFSI, must be able to have an ongoing ability during the term of the agreements to transfer parts from the IFSI to GEII to be used on behalf of Dominion Virginia Power and to have Dominion Virginia Power pay Dominion Energy for those parts. Dominion Energy will then pay GEII. In order to conduct the necessary transactions, Dominion Virginia Power and Dominion Energy propose to conduct these sales pursuant to a Parts Reimbursement Agreement.

Under the Parts Reimbursement Agreement between Dominion Virginia Power and Dominion Energy, GEII may use parts from the IFSI for Planned Maintenance, Unplanned Maintenance, and Extra Work for Dominion Virginia Power's generation units. For Planned Maintenance, GEII may use the parts from the IFSI, but GEII must replace the parts at no additional expense to the Company. For Unplanned Maintenance or Extra Work, GEII may use the parts from the IFSI, and GEII must replace the parts. However, Dominion Virginia Power will pay the GEII price by reimbursing Dominion Energy for the price paid by Dominion Energy to GEII. Such price will be based on the discounted rates established in the Master CSA and the individual CSAs. Dominion Virginia Power represents that such discounts on initial spare parts and subsequent purchases of spare parts provided for in each CSA were achieved on a Dominion fleet volume basis to the benefit of Dominion Virginia Power and its affiliates.

Dominion Virginia Power states that both the transfer of inventory and the Parts Reimbursement Agreement are necessary for the successful implementation of the Master CSA between Dominion Energy and GEII and the CSA between Dominion Virginia Power and GEII. The Company further states that successful implementation of such transactions with GEII are in the public interest because they improve efficiency and reliability and reduce costs of Dominion Virginia Power's electric generating operations through the realization of discounts. In addition, Dominion Virginia Power's reliability of its Covered Units is improved because there are two complete sets of spare parts that are in possession of a Dominion entity, thereby reducing risk, cost, and time by significantly reducing reliance on outside sources for the spare parts.

As stated in the petition, Dominion Virginia Power will realize significant efficiencies and savings as part of the overall agreement with GEII. The transfer of the IFSI will be a one-time isolated transaction with such inventory being transferred at the exact cost that Dominion Virginia Power paid for it. Under the Master CSA, the individual CSAs, and the Parts Reimbursement Agreement, Dominion Virginia Power and its unregulated affiliates are all treated equally. Dominion Virginia Power states that there is a benefit to the Company and no advantage to the unregulated affiliates as the terms of the agreement with GEII apply equally to both the regulated and unregulated Dominion affiliates.

Furthermore, GEII is obligated under the contract to treat Dominion Virginia Power as a “preferred” customer, so it will obtain priority in terms of service and replenishment of parts. Financially, participation in the agreement with GEII is expected to reduce Dominion Virginia Power’s costs significantly over the course of the contract. Further benefits, as represented by Dominion Virginia Power, are lower inventory costs, lower Unplanned Maintenance costs, and risk management strategies built into the contract.

Dominion Virginia Power’s research and analysis of the consequences of Dominion Energy holding title to the IFSI versus Dominion Virginia Power holding title revealed that housing the inventory in Armstrong County, Pennsylvania, the site of the Armstrong Energy Limited Partnership, LLP merchant facility, is beneficial from both a physical proximity to the entire Dominion fleet of units as well as a tax liability standpoint. According to the Company’s research, parts from the IFSI could be physically obtained from the Armstrong County, Pennsylvania, location and transferred to the Virginia location in about five driving hours.

In addition, it would be more beneficial for Dominion Energy to hold title to the IFSI. If Dominion Virginia Power were to hold title and house the inventory in Armstrong County, Pennsylvania, Dominion Virginia Power would incur significantly greater state tax liability in Pennsylvania than Dominion Energy.

Dominion Energy and the Company also considered housing the inventory in Virginia. However, this is a less central location for physical access to the IFSI for the Dominion fleet of units and would result in additional tax liabilities.

As a result, Dominion Virginia Power and Dominion Energy determined that the most current cost-effective option and the most central location are to house the IFSI in Armstrong County, Pennsylvania.

NOW THE COMMISSION, upon consideration of the petition and representations of the Petitioners and having been advised by its Staff, is of the opinion and finds that the requested exemption from the filing and prior approval requirements of Chapter 4 of Title 56 of the Code is not in the public interest and should, therefore, be denied. We do believe, however, that the above-described transfer of inventory and Parts Reimbursement Agreement are in the public interest and should be approved.

We believe that the proposed transfer of inventory and Parts Reimbursement Agreement will enable Dominion Virginia Power to maintain a lower spare parts inventory and will allow it to realize savings through discounts from GEII as well as some tax savings. We believe, however, that Dominion Virginia Power should submit an analysis with the Division of Public Utility Accounting on an annual basis showing that benefits continue to accrue to the Company from participation in the Parts Reimbursement Agreement. We further believe that any approval granted herein should not in any way affect our decision in Dominion Virginia Power's functional separation case, Case No. PUE-2000-00584.

Accordingly, IT IS ORDERED THAT:

(1) Pursuant to § 56-77 of the Code, the Petitioners' requested exemption is hereby denied.

(2) Pursuant to § 56-77 of the Code, Dominion Virginia Power and Dominion Energy are hereby granted approval for the proposed transfer of inventory from Dominion Virginia Power to Dominion Energy and for the proposed Parts Reimbursement Agreement under the terms and conditions and for the purposes as described herein.

(3) Should there be any changes in the terms and conditions of the Parts Reimbursement Agreement from those described herein, Commission approval shall be required for such changes.

(4) Dominion Virginia Power shall submit a report with the Commission's Division of Public Utility Accounting containing an analysis showing that Dominion Virginia Power continues to benefit from the Parts Reimbursement Agreement. Such report shall be submitted at the same time as Dominion Virginia Power submits its Annual Report of Affiliate Transactions.

(5) The approvals granted herein shall in no way affect our decision in Dominion Virginia Power's functional separation case, Case No. PUE-2000-00584.

(6) The approvals granted herein shall have no ratemaking implications.

(7) The approvals granted herein shall not preclude the Commission from exercising the provisions of §§ 56-78 and 56-80 of the Code hereafter.

(8) The Commission reserves the authority to examine the books and records of any affiliate in connection with the approvals granted herein whether or not the Commission regulates such affiliate.

(9) Dominion Virginia Power shall include the transfer of inventory and the Parts Reimbursement Agreement in its Annual Report of Affiliate Transactions submitted to the Commission's Director of Public Utility Accounting.

(10) If Annual Informational and/or General Rate Case Filings are not based on a calendar year, then Dominion Virginia Power shall include the affiliate information contained in the Annual Report of Affiliate Transactions in such filings.

(11) There appearing nothing further to be done in this matter, it hereby is dismissed.